Ohio Farm Household
Longitudinal Study*

Department of Agricultural
Economics and Rural Sociology
The Ohio State University
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Farm Household Income by Farm Type

This report summarizes household income for several types of Ohio farms. Information in this report is from about 900 Ohio farm households that are participating in the Ohio Farm Longitudinal Study and are selected to be representative of the 70,000-80,000 households operating farms in Ohio. This past spring, farm operators in the sample were asked numerous questions about their businesses and households. The household income discussed in this report is the response to those questions for the 1987 calendar year.

Ohio farms are diverse. Grain farms, with the majority of their farm income from the sale of corn, wheat, and soybeans, are the most numerous. Dairy farms sell dairy products and livestock to generate most of their farm income, while also growing substantial crop acreages for feed or off-farm sale. Swine farms earn most of their income from the sale of feeder pigs, slaughter hogs, and/or breeding stock but also grow crops for feed and off-farm sale. Other common farm types include cattle feeding and cow-calf operations, vegetable farms, and fruit farms. Some farms are best classified as general farms because their farm income is earned from a variety of crop and livestock enterprises. Most farm households also have income from off-farm jobs or other non-farm sources.

This report summarizes farm household income for the most common farm types in Ohio: grain, dairy, and swine farms. These farm types account for over 60 percent of all Ohio farms. Other typical farm types such as cattle feeding, cow-calf, vegetable, fruit, and general farms make important contributions to Ohio agriculture, but they will not be included in this brief report.

Farm Household Income by Farm Type

Household incomes are summarized for the "average" farm household and the "commercial" farm household (Table 1). Farms are considered to be dairy, swine, or grain farms if at least 50 percent of the gross farm income comes from these particular enterprises. The category "all farms" includes all farms in the sample, regardless of farm type.

As discussed in previous reports, information about the average farm is strongly influenced by the presence of numerous part-time farms. On those farms, the primary sources of household income are off-farm salaries and wages, interest, dividends, social security income, pension and retirement funds, and so forth. Commercial farms on the other hand receive most of their household income from the farm. While the spouse may work off the farm and the family may earn income from off-farm sources, the operator typically is employed full-time on the farm operation. Farms with at least $100,000 in gross farm income are classified as commercial farms. They account for 17 percent of all farms, but they produce about two-thirds of Ohio's farm products. On the other hand, 63 percent of Ohio's farms have annual gross farm sales of less than $40,000, produce only 15 percent of Ohio's farm products, and derive nearly all of their household support from off-farm sources.

The size distribution for grain farms is similar to that for all farms. About 14 percent of the households operating grain farms have gross farm income of $100,000 or more and are classified as commercial farms. In contrast, dairy farms and swine farms tend to be larger; over 40 percent of the

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households operating dairy farms are commercial farms and about one-third of the households operating swine farms are commercial farms.

Because dairy farms make constant demands on family and operator labor, non-farm income is relatively low for both the average dairy farm and the commercial dairy farm. On the other hand, the labor demands on the average grain farm are seasonal, and a higher proportion of household income comes from off-farm sources.

Farm household income in 1987 was the highest on swine farms and lowest on grain farms. Given the relative prices of hogs and grains last year, this result is not surprising. Dairy farms generated the highest amount of farm income among these farm types. Even though dairy farm operators' off-farm earnings were restricted, relatively high farm income pushed dairy farms' household income above that on most other types of Ohio farms.

Return on Assets by Farm Type

Net farm income measures the return to all owned resources: owned capital, unpaid family and operator labor, and management. It is expected to be higher on those farms where owned resources are supplied most heavily. For example, on farms using large amounts of unpaid family labor, net farm income is expected to be high, compared to a farm using hired labor or one requiring less labor.

Return on assets is a better measure of economic performance of the business than is net farm income. It is computed by subtracting a charge for unpaid labor and management from net farm income. Then, interest paid on debt is added, and the result is divided by value of farm assets. Return on assets measures the return generated by all assets used in the business regardless of whether these assets are financed by debt or equity capital.

Return on assets for 1987 (Figure 1) is calculated to include only operating returns. The return from asset appreciation, another source of returns, has been omitted. Return on assets for 1987 would be 4-5 percent higher than those depicted in Figure 1 if asset appreciation was included. On average farms, the return on assets was near zero, regardless of farm type. Essentially, net farm income was just large enough to cover the opportunity cost of unpaid labor.

On commercial farms, swine producers had the highest return on assets and dairy producers the lowest. While dairy farmers had high net farm incomes, there was a large amount of unpaid family labor used on these farms. Since the return on asset calculation includes a charge for this unpaid labor, dairy farms' performance, as measured by return on assets, is low relative to other farm types.

Summary

Average Ohio farm household income was about $32,500 in 1987. For commercial farm households it was near $50,000. Return on farm assets (excluding asset appreciation) was near zero for the average farm household and about 5.6 percent for commercial farms.

These measures of performance differ by farm type. Households operating dairy and swine farms enjoyed higher net farm incomes than did grain farms. Return on farm assets was low for the average farm household, regardless of farm type. For most types of commercial farms, return on farm assets was modest; however, it was competitive with the off-farm rate of return if asset appreciation was included as part of the return to farm assets.

Figure 1.

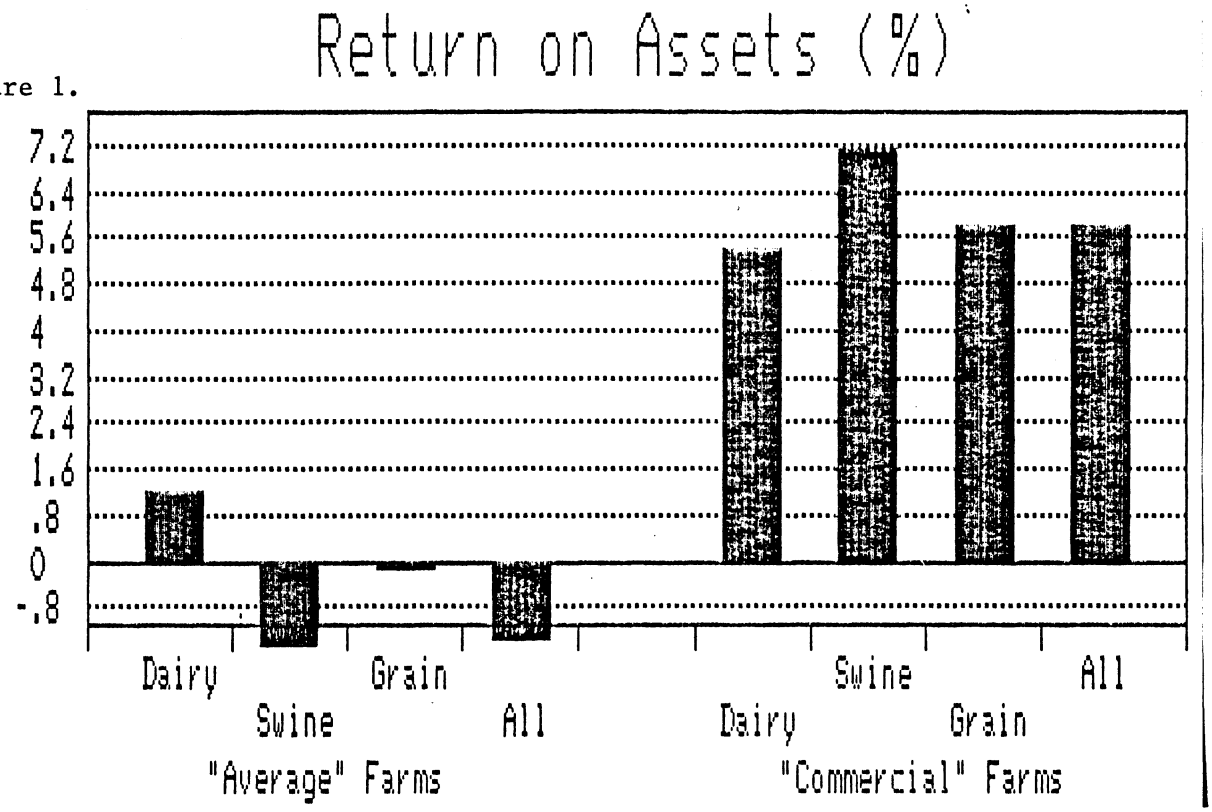

Table 1. Ohio Farm Household Income for Alternative Types of Farms[a], 1987

	Net Farm Income	Non-Farm Income	Total Household Income
	----------$1,000 per farm----------		
"Average" farms[b]			
Dairy	23.1	13.4	36.5
Swine	16.4	23.1	39.5
Grain	6.7	25.9	32.6
All	7.3	25.2	32.5
"Commercial" farms[c]			
Dairy	41.6	11.4	53.0
Swine	40.4	14.6	55.0
Grain	26.1	13.4	39.5
All	34.8	15.0	49.7

a Farm type is defined by 50% or more of gross farm income coming from one enterprise.
b "Average" farm refers to all Ohio farms of this type.
c "Commercial" farm refers to Ohio farms with gross farm income of $100,000 or more.